

New Munich Re US White Paper Tackles Social Inflation; Recommends a Cross-Functional Approach

- Social inflation poses a serious challenge as it has impacted loss costs in the commercial liability market for the insurance industry and businesses.
- Social inflation is a multi-faceted issue; a broad approach using a cross-functional team with expertise in claims, legal, underwriting, actuarial, and data analytics offers a way to take a fresh look at the risk and its link to the commercial liability business segment.
- “Insurance is a necessity for business and society to prosper; and ultimately, the cost of that protection needs to be sustainable for that to happen. In the long term, if not fairly addressed, social inflation may impact the availability of adequate insurance coverage, which in turn filters through society and impacts businesses and individuals alike.” – Steve Levy, CEO, Munich Re US

A new Munich Re, US white paper, called “Taking a Team Approach: A reinsurer’s perspective on social inflation,” notes that a number of societal factors have had an impact on escalating loss costs in the commercial liability market which has posed a challenge to the U.S. re/insurance industry and the businesses it insures. The white paper explores the potential for a cross-functional approach to help the re/insurance industry better understand and manage this risk.

Social inflation refers to the impact that societal factors (e.g., legal advertising, litigation funding, expanding class-action lawsuits, public distrust of corporate defendants, etc.) can have on insurance claims. It is considered to be a primary cause today for the escalating loss costs in the commercial liability market. The industry has been hindered in addressing social inflation due to a lack of readily available and timely data and the inability to segment individual social inflation factors in data that is available.

“While our own portfolio is being actively managed to stay ahead of the variety of factors contributing to the changing values of society, there is some concern in the broader U.S. re/insurance industry about developments in the commercial liability market and the impact of social inflation on loss trends for this business,” said Steve Levy, CEO of Munich Re US. “Considering the degree of uncertainty regarding the trends in this segment, we thought it was prudent to review what is driving social inflation’s impact and how the industry could better manage this risk.”

“Social inflation is a multifaceted issue that requires a broader approach to analyze and determine what’s driving its impact on results,” said Levy. A cross-functional team with expertise in claims, legal, underwriting, actuarial, and data analytics offers a way to take a fresh look at the risk and its link to the commercial liability business segment. By improving our understanding of this risk, we can improve our underwriting of this class of business which can ultimately translate to a more stable market for our customers in this segment.”

Social inflation appears to exist across most risk classes, and there are several options available to re/insurers to help control the risk including re-underwriting the portfolio, managing limits and pricing actions. However, as the white paper notes, in the case of commercial liability,

re/insurers must also look at external factors, become more forward-thinking in terms of trends and identify macro factors that can influence underwriting strategy. Collaboration with analytics professionals and data scientists who are skilled at data mining and interpreting correlations between data from new sources and market performance may also prove to be an efficient and effective strategy for re/insurance companies to compete and improve results in the commercial liability market.

As Levy noted: “Insurance is a necessity for business and society to prosper; and ultimately, the cost of that protection needs to be sustainable for that to happen. In the long term, if not fairly addressed, social inflation will impact the availability of adequate insurance coverage, which in turn filters through society and impacts businesses and individuals alike.”

To learn more about social inflation as well as what Munich Re is doing to better understand the issue and address the changing landscape, read the white paper [here](#).

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